Jobtech Alliance

Learning Study 1:

Platform Cutout

April 2024

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Learning Studies are practical write-ups of lessons learned from the Jobtech Alliance's Venture Support work, or wider engagement with the ecosystem. You can find out more about Venture Support at the Jobtech Alliance here.

This learning study was produced by the Jobtech Alliance, with special thanks to all our portfolio company founders and platform members for their really invaluable contributions. Your deep insights are helping the entire ecosystem learn, adapt and innovate!

This learning study was produced in February 2024 as part of Jobtech Alliance's research and insights programme on the sector in Africa. You can find some of our materials here. If you have feedback or want to learn more, please reach out.

Why do we care about cutout?

Cutout, bypassing or leakage, also disintermediation or deplatforming, all refer to the same, prevalent phenomenon on jobtech platforms and beyond – when users go off-platform and directly engage in a transaction. The reasons can be many, but usually they revolve around avoiding the payment of fees, preferring bilateral transactions, or simply not seeing the benefits of the platform.

Cutout poses one of the biggest risks to a platform's viability, as it has a direct impact on revenues and profitability. This backdoor process is an existential risk in two-sided marketplaces as platforms' survival and success depend on their ability to mediate interactions and transactions, without owning the demand or supply.

Accepting cutout, but also actively managing its impact, provides jobtech entrepreneurs with an important equilibrium. Beyond purely existential considerations, cutout risk pushes platforms to stay close to their users, research, improve and innovate, as well as to implement the right logic and incentives from the get-go. As the CEO Côte d'Ivoire's Mon Artisan, which connects craftspeople to gigs, put it:

> **It's not always easy, we cannot control everything at all times. But it pushes us every day to improve our service, to check where we are with our users.**

So what can platforms do to solve the cutout problem? Can they police it? How can they minimise it? Can they eliminate the risk altogether?

Some of the answers may seem straightforward. The obvious first step is better enforcement. Then there is adding value to both the demand and supply side so that jobtech platforms can maximise their users' stickiness and minimise cutout risk, rather than mechanically police it. How this value is added can lead one down many paths.

Below, we explore these approaches – from policing to the practicalities of value addition that founders need to consider, all the way to ruling out cutout risk by adopting new models such as vertical integration.

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Step 1: Prevent cutout through enforcement

By making it difficult for users to connect bilaterally and enforcing consequences for non-compliance, jobtech platforms can effectively maintain their role as intermediaries and uphold the integrity of their marketplace. At its very core, cutout compliance does boil down to enforcement.

Established platforms – such as Fiverr and Airbnb – discourage cutout first and foremost by making it logistically difficult. This includes robust restrictions around sharing of personal contact information, such as emails or phone numbers, until a booking is confirmed. Such provisions ensure that transactions remain within the platform's ecosystem.

Moreover, platforms may impose penalties or restrictions on users who attempt to bypass the system, such as account suspension or removal altogether. Measures can include penalising workers or sellers who attempt to transact with their counterparts off-platform by demoting them in search results and rankings, or the more extreme banning of users. Samaipata Ventures sees the latter as generating a fear of being kicked off (FOKO), which can act as a strong deterrent, especially for more established platforms on which users can generate a significant portion of their income.

But to avoid alienating users and generating friction, a platform's anti-cutout policy needs to be clearly defined and explained throughout both the worker and customer journeys. Only then can more penalising measures be justified, without harming a platform's reputation and ultimately its relationships with users.

Still, enforcement, or policing, alone does not offer a sustainable enough solution to the cutout risk. In the words of one African jobtech platform founder:

> **Cutout happens on every platform. It's difficult to avoid and harder to control. Accepting that this will happen and focusing on adding value is much better than 'policing' it.**

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Step 2: Reduce the incentives for cutout

A platform that delivers what the user wants diminishes the need to transact outside of it – it provides a service that users cannot find elsewhere in the marketplace.

There are a number of very practical ways to ensure this:

Find alternatives to (high) transaction fees

- Avoiding transaction fees is among the biggest cutout drivers. While simply lowering transaction fees is not always a viable option, there are alternatives:
- Some platforms, such as UpWork, have introduced a sliding scale of commission fees depending on transaction volumes with a degree of success. Such models remain underexplored in Africa, but they do tend to skew towards winner-takes-it-all logic, where only a small number of users end up with meaningful income.
- A different approach, also barely tested in Africa, is a pricing model where fees diminish progressively. For the same high-frequency, repeat relationships that might be prone to cutout – for example, cleaning services provided by a certain professional to a specific client on a weekly basis – the platform can reward one or both sides for continuing their relationship on-platform by reducing fees as time goes by. This rewards the supply side for deepening their relationship with the demand side, while mitigating against cutout.
- Many African platforms have switched to a lead generation model from a full-service one. Even though **revenue-wise, transaction fees guarantee a higher customer lifetime value**, numerous platform founders across Africa spoke about their switch as a way of tackling cutout, while enabling scalability, as detailed below:

Case study: Three African platforms' experiences with the lead generation model

k: kandua

South Africa's domestic repair platform Kandua changed its business model to be need-based, whereby service providers buy credits through a wallet on the platform, and then pay for the introduction. The company focused on a key part of the value chain of which it had full visibility – before the two parties meet – and was able to monetise on that. During the transition, Kandua's co-founder Sayo Folawiyo found that "controlling the elements of a job is much harder than the intro itself given the large variability thereafter", which led Kandua to change its VP more towards the initial connection and building strong feedback loops to continuously improve the full experience for all parties. While the company's revenue per customer dropped, its service became infinitely more scalable, with cutout basically a non-issue.

Runnovate

Kenya's Runnovate, which matches remote assistants to clients, went through a similar journey. Its current model involves a one-time placement fee, effectively eliminating cutout. Previously, Runnovate had a full-service, in-house model, and had to prevent disintermediation by providing personalised support to both parties. While this approach worked initially, it was not as scalable. Providing high-quality customer support — which we look into below — can be very operationally challenging. Today, Runnovate only offers a premium service for which it provides more personalised support after the remote assistant placement.

Ethiopia's GoodayOn also does not charge transaction fees, but instead has an access, or connection, fee for employers, which is fixed-price, per job, regardless of the volume of work. The providers are meanwhile charged a negligible subscription fee (2 Ethiopian birr, or approximately $0.035) on a daily basis. GoodayOn's CEO Alem Abreha **acknowledged that there are "trade-offs with each model but the goal was to have a model that felt good to us and all parties involved."**

> Subscription and package models benefit both users and platforms by creating a win-win scenario that fosters loyalty, revenue stability, and a more diversified user engagement, while also minimising cutout risk.

Encourage subscriptions and packages

Users value convenience. Subscriptions and packages are a strategic move not only to ensure sustained growth, but to enhance the user experience. That is the logic that initially drove Eden Life's subscription model for concierge services, which subsequently expanded to its Homemade-branded meal prep offering.

While novel to many African markets, a subscription service introduces predictability and seamlessness to verticals that might sorely lack it. Packages can attract users with discounts, while also compelling them to bundle multiple services from the same platform, thereby increasing value. Subscription and package models benefit both users and platforms by creating a win-win scenario that fosters loyalty, revenue stability, and a more diversified user engagement, while also minimising cutout risk.

Make it incredibly easy to rebook

Yes, users really do value convenience. A seamless rebooking process is thus critical to mitigating against cutout risk, but also for guaranteeing user satisfaction and streamlining operational efficiency. Chris Maclay, the former COO of Kenyan home services platform Lynk, explained:

> It has to be more convenient to rebook through your platform than contacting the worker directly. You need to be able to rebook in one or two clicks rather than back-and-forth scheduling on WhatsApp.

Achieving this is not easy. It may require more complex functionalities like having worker availability updated accurately, in real time via a worker app, or in the backend.

Enable price transparency and negotiation

Huge variations in professional fees and lack of market transparency define many African offline and online marketplaces. As one jobtech platform founder said:

> There's always this cat and mouse game when there's a business transaction. There's always haggling. Every time the service provider tries to present a higher price, the customer lowballs and then there's this dance.

Jobtech platforms are uniquely positioned to solve for this and attract a loyal customer base as a result. And if the user base proves to really value negotiation after all, platforms can have this functionality, the way that InDrive has done. In commoditised sectors such as ride hailing, however, this can encourage a race-to-the-bottom logic. But, complex work quotes can also trip up platforms operationally, as Lynk's experience demonstrated, and still leave space for cutout with additional or different scopes of work.

Hold escrow and settle when right

Described by one founder as "the holy grail" when it comes to preventing cutout, holding escrow tackles a pervasive trust deficit for many African users. They tend to be reluctant to make upfront payments out of fear of suboptimal (or

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no) delivery of goods or services, or even outright fraud. Côte d'Ivoire's **Mon Artisan, for example, positions its management of payments** as a means of regulating quality by sequencing tranches to ensure that a craftsperson is not paid all at once. If there is an issue with the product, the platform is then in a position to offer discounts to customers.

For the supply side, escrow eliminates the risk of non-payment, which is not negligible. Taking this further, Kenya's Jipamba offers a solution for personal care professionals, who typically, in salons, will not receive their pay until the end of the month, long after a client has been serviced. These payments are also often based solely on records held by the salon owner. Addressing these issues, Jipamba disburses payments to professionals within 3-4 days after service delivery, while also having a functionality to keep records that streamline the relationship between the professional and the salon owner.

When it comes to payments, crucial to consider are the risks associated with the settlement gap, or the time it takes from payment initiation to receipt. A settlement gap deemed unacceptable by the recipients can drive cutout. This is not to say that every platform should seek immediate payouts – as highlighted above, there is significant value in holding escrow for the purposes of quality of control.

Offer value through fantastic customer service

Successful customer service makes users sticky, especially in low-trust environments. Through it, platforms provide something no bilateral relationship can offer: a neutral and unbiased space to professionally mediate and resolve issues when something does go wrong. Many platforms fix issues free of charge. "Probably the main reason that customers re-used Lynk is that they knew that there was someone to go to if something went wrong," according to Maclay, former COO.

Once customer service is successfully rolled out, the next step would be to identifying:

1. What specific concerns customers might have about transacting on the platform
2. What providers' most common shortcomings in delivery are
3. What the logistics that both sides do not want to deal with are

Prioritising customer service is also essential for building trust with providers whose income depends on the client's satisfaction. Once customer service is successfully rolled out, the next step would be to identifying:

- What specific concerns customers might have about transacting on the platform
- What providers' most common shortcomings in delivery are
- What the logistics that both sides do not want to deal with are

This can help platforms design more cost-effective and user-centric customer service experiences.

Great customer service can also mitigate against unrealistic expectations that a platform can resolve issues that might have transpired outside it, or be beyond the services it provides. Skilled talent platform Kolaborate, for instance, has placed this as one of the bedrocks of its strategy. It sees itself as a "trusted brand" with which clients, primarily European SMEs, can easily troubleshoot, according to founder Pearl Gakazi. To position itself as understanding clients' concerns and being transparent about its delivery, Kolaborate offers pro bono services to first-time clients, whereby part of the customer service experience is seeking extensive feedback. In Gakazi's words:

> **It's ok to acknowledge when things are rough around the edges. Clients want to help [especially] when it is a long-term solution they are after.**

1. Savings mechanisms and credit lines are among the most commonly prized by platform workers in Africa, followed by insurance.
2. A perk that is critical for workers is the availability of training or other career support.
3. Tactical interventions – such as portfolio verification – have proven particularly popular with workers.

Provide additional services

A host of additional services that resonate with users can temper the risk of cutout. These services include:

- **Financial services and partnerships.** Savings mechanisms and credit lines are among the most commonly prized by platform workers in Africa, followed by insurance. As the Jobtech Alliance has documented, platform workers often experience income volatility. Access to embedded finance products – offered by the likes of ImaliPay – enable not only financial inclusion, but boost users' income and productivity. A ride-hailing company demonstrated that through access to ImaliPay's product loans, for example, its drivers could work an additional ~36 days a year, equivalent to an income boost of approximately $350. Some platforms integrate such services in their offering: Mon Artisan offers its craftspeople access to buy-now-pay-later services for bulk-bought fabrics, while GoodayOn is working with Ethiopian banks to create products customised for workers, enabling them to access preferential interest rates, for example. Safeboda has partnered with insuretech provider Turaco to offer highly affordable insurance for its riders. For materials-intensive sectors, the procurement of high-quality, reasonably priced supplies can be a major obstacle for users, which jobtech platforms can solve for and decrease cutout.

- **Training and career progression. Another perk that is critical for workers is the availability of training or other career support. South African engineering services platform Gig Engineer, for example, aims to build a sense of community with the supply side, by understanding engineers' goals, providing them with support on the journey, as well as devising other enabling tools. As CEO Kirshen Naidoo said:**

> Perhaps this is less scalable, but I think high tech with high [personal touch is a hard-to-beat combo.

On a more operational level, jobtech platforms can support career progression by tracking job completion and timing, as well as customer ratings and the skillsets demonstrated. This can help workers build a digital record of their experience and expertise, which is particularly valuable in more informal sectors.

Platforms can also integrate sponsored qualifications into their offering. **GoodayOn, for instance, focuses on partnerships with established international construction product brands, which can** train professionals using their products. The investment in training a platform's construction workers is offset by the marketing benefits.

- **Vetting and portfolio verification.** More tactical interventions – such as portfolio verification – have proven particularly popular with workers. In Kenya, Jipamba found that allowing professionals to add images to their portfolio after completion of the job with the client's approval had a direct correlation with their ability to attract customers. An unexpected result was also the high level of engagement with this function by women workers.

Case study: Jipamba addresses issues unique to women users

Though a very early-stage platform, Jipamba has invested time and effort understanding the gendered experiences of personal care professionals on its platform. This user research has led it to offer two women-oriented functionalities:

- First, professionals are given the option of deciding the type of customer they prefer working with, based on gender or age. This provides a useful filter for women workers who are risk-averse when it comes to interaction with men.
- The second is a much more nuanced offering, which concerns tipping via the platform. The functionality was devised following the realisation, based on user research, that when men ask for a woman professional's phone number in order to use mobile money to tip, this might have data privacy ramifications and even lead to harassment. Jipamba's tipping tool circumvents such interactions and puts women professionals in a stronger position, from which they can also actively dissuade their customers from cutout.

Reward loyalty

What better way to build loyalty – and derisk cutout – than to reward it. Loyalty programmes balance out the perceived heft of commission fees, whereby both user sides can benefit from discounts, additional premium services, or special status on the platform.

Loyalty programmes can come in many different shapes and sizes, and remain relatively underexplored in the African jobtech ecosystem. Nigeria's skilled worker recruitment platform ArtisanOga, for example, is currently developing an algorithm that would enable workers, especially freelancers, to rank according to the number of jobs they have done through the platform. ArtisanOga is implementing this after a cutout-focused strategy session; it sees it as pivotal to discouraging workers from disintermediation and to bringing even more transactions to the platform. Such algorithms do carry a latent risk of perpetuating a winner-takes-it-all logic, however.

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The big leap: explore a new model

Going beyond the purely practical, entrepreneurs can also start thinking about the bigger picture. How is a platform's model built? Is there a model that by design removes, or even transcends, the risk of cutout?

Some African jobtech platforms tackle such conceptual questions as they build for the future. They approach a problem in the marketplace without falling back solely on the bilateral user relationship or match-making, in order to provide integrated, full-stack services to their users, or even refocusing from B2C to B2B. As part of its portfolio, Jobtech Alliance provides these ecosystem players with hands-on support.

Focus on the worker

Many jobtech platforms conventionally see the demand side as having the upper hand in two-sided marketplaces, but focusing on workers might be the key to a more sustainable business — and jobtech future! After all, even if only one side insists on the platform being used at all times, then cutout risk disappears. And jobtech platforms should be looking to empower those whose livelihoods depend on them. Through extensive research, Jipamba, for example, found that hairdressers and barbers are

their main targets and so, focused first and foremost on their needs. In the words of CEO Joshua Mwaniki:

> We focused on solving things for all the personal care professionals, so they won't want to go back offline. This makes them push for it [the use of our platform], but we also simultaneously incentivise the clients.

Consider B2B

Individual customers tend to be more discerning and value the human touchpoint; they are more comfortable with bilateral interactions. As such, a B2C model inherently poses more cutout risk. B2C transactions are also typically of lesser value, while businesses might seek higher volumes of services on jobtech platforms. Businesses also tend to prefer an institutionalised intermediary to an individual service provider – for consistency and formality, among other reasons – and thus are less prone to cutout on jobtech platforms.

This has been proven in Kolaborate's experience so far. In CEO Gakazi's words, "it is a natural choice for employers to go to platforms; traditional processes are longer, more expensive". Kolaborate is using its B2B model for an even more ambitious purpose, seeking growth by building demand rather than simply identifying where there is oversupply. This is in line with Jobtech Alliance's "it is all about demand" mantra.

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Integrate vertically

African jobtech platforms can go beyond simple matchmaking functionalities by integrating vertically, building infrastructure to turbocharge the supply side and make it thrive. This infrastructure can cover training, tools, standards, supply chain, customer fulfilment, marketing, all the way to reducing friction with customers.

Nigeria's Fitted is doing exactly that, building an end-to-end service for tailored garments. This means that the platform itself does all customer fulfilment and management. By anonymising its tailors, the platform fosters trust in its brand and mitigates against cutout. But, the tradeoff is, as founder Ibi Cookey put it, "creating an operationally complex design rather than pure platform play." Fitted thus represents a longer-term view on jobtech platforms in Africa, rather than an emulation of what might already exist:

> **“We had to ask ourselves really difficult questions about the users: do people really want to self-manage or are they self-managing because of lack of options? There is a dividend in going the difficult route.”**

Kandua is, meanwhile, building its Hustle OS based on this model, enabling professionals with business-transforming tools as they grow: from business management to customer discovery. As founder Folawiyo explains, Hustle OS is:

> **“That idea of pathways that serve you the right products and services, obviously tech enabled in your journey to building a business in whatever vertical that you’re building it in.”**

A number of platforms across the continent have adopted this thinking, including:

Kenya’s HustleSasa provides not only digital storefronts for creatives and event organisers, but helps them better engage with their target markets through order management, payments and delivery. HustleSasa also recently launched a digital incubator for creatives.

Nigeria’s Klas helps individual instructors and brands provide large-scale online learning through virtual academies and schools. Beyond the delivery of courses, its pro subscription covers custom branding, integrated email marketing, and growth-oriented reports and analytics.

These more elaborate jobtech platform routes might very well be the routes of the future – where platforms supercharge the growth of microenterprises and entire marketplaces, rather than simply cutting their own risks.

Explore platform cooperativism

Platform cooperatives (co-ops) present a bold alternative to existing platform models, focusing on stakeholders (workers) as shareholders. By virtue of their very design, platform co-ops deal away with the possibility of cutout. In India, home services platform Urban Company recently launched its industry-leading partner stock ownership plan for service providers, who will be able to benefit from it in the next 5-7 years.

Platform co-ops not only eliminate cutout as a concern, they offer a dignified employment solution – bolstering worker rights and bargaining power, as well as hyper localised community collaboration. Underexplored in Africa, they present a viable future model that stimulates local entrepreneurship, infrastructure and development.

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Read, watch, hear more

1. https://hbr.org/2023/08/why-customers-leave-platforms-and-how-to-retain-them
2. https://www.marketbase.app/marketplace-insights/combatting-disintermediation
3. https://www.livemint.com/opinion/columns/service-platforms-should-aim-to-minimize-disintermediation-risk-11676827645498.html
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